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ELEMENTARY PROPOSITIONS

ON THE

CURRENCY.

WITH

ADDITIONS,

SHOWING

THEIR APPLICATION TO THE PRESENT TIMES.

BY

HENRY DRUMMOND.

THE FOURTH EDITION.

LONDON:

JAMES RIDGWAY, PICCADILLY.

1826.

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PRELIMINARY OBSERVATIONS.

WHEN the following Propositions were first drawn up, they were thought to be so self-evident to every one who would consider the subject, that it would be superfluous to publish them. Experience, however, has shown, that the public requires much more instruction in the mere elements of every branch of Political Economy; and that, until it is more enlightened, the correct principles, generally entertained by his Majesty's present ministers, are liable to be perpetually thwarted.

Although merchants and bankers are not ultimately more affected by the state of the currency than any other class of the community, yet they are the first to be influenced, either by any sudden extension, or sudden contraction of its amount: the manufacturers and their labourers follow next; and the landlords and agricultural population feel it the last; and these, ordinarily, not until the merchants and bankers have ceased to suffer from it: but every class feels its consequences,

sooner or later, and therefore are equally interested in understanding its operations : if

Paper credit, that worst, tho' last supply,
Which lent corruption lighter wings to fly,

had never been in existence, nothing would have been more simple than all the offices of a circulating medium of barter ; but paper-money has not only put the whole system, in old and highly civilized, and extensively commercial states, out of joint, but has introduced so many discordant terms of credit, exchange, par, mint price, bullion price, &c. &c., that many persons are deterred from an examination of the subject, by the unintelligible jargon of the language in which it is expressed.

But there is encouragement to persevere. Above two hundred years ago, Lord Bacon pointed out defects in our statute law, and urged the amendment and consolidation of it. His complaints and his arguments have been re-echoed ineffectually at various subsequent periods ; but it is only now, that Mr. Peel, to his immortal credit, has begun to rectify them. In 1713, the London Merchants unanimously (Mac. An. Com. vol. iii, p. 31) declared the trade with France a nuisance, because it produced an annual export of bullion to that country : a position, which the most stubborn opponent of the principles of free-trade would hardly venture to maintain in any public

assembly at the present day. The Navigation Laws which were first passed by the Revolutionary Parliament, for the avowed purpose of destroying the commercial prosperity of the Dutch (a purpose, indeed, which Sir J. Child had the sense to see these laws did not effect), are happily at an end. The excise scheme of Sir Robert Walpole was founded upon the same principle as the warehousing system which was introduced by the present administration; but Sir Robert was so opposed by the merchants, whose knavery would have been checked, and by the factious violence of the opponents to his ministry, that he was compelled to abandon it. In 1803, Sir Robert's principles, under the auspices of George Rose, were triumphant.

Et tibi vel Betty, tibi vel nitidissima Letty
Gloria factorum temeré conceditur horum.

Fifty years ago, Adam Smith proved the monopoly of the Bank of England was a nuisance to the country; but Mr. Robinson has been the first Chancellor of the Exchequer who has comprehended his reasoning, and been able to act upon it. In 1810, the few bankers and merchants, who ventured to maintain, in opposition to the bank directors, that a piece of paper and a silver shilling were not equal to a golden guinea, were looked upon by their brethren as visionary theorists; but we have lived to see

those, who at that time denied the depreciation of bank notes, heartily ashamed of that celebrated resolution, which still disgraces the Journals of the House of Commons.

A great change of opinion, however, yet remains to be effected. To determine the laws which regulate the value of the currency, its uses, and its operation upon all the employments of civilized society, is the most important branch of economical science. Upon the *fixedness* of the value of the currency depends, whether every part of internal and foreign commerce shall be lucrative, or otherwise. Unless the value of the currency be *fixed*, the landlord is at one time defrauded of his due proportion of the produce of his soil, while, at another time, the tenant is robbed of his capital : the manufacturer and merchant binds himself to obligations, which it becomes impossible for him to discharge; and the labourer finds every fluctuation alike deprive him of some farther portion of his scanty earnings*.

Political Economy is the science which teaches us how to procure the greatest quantity of conveniences at the least expense of time and labour:

* “ The object of every description of currency should be to make the value of property as steady, and as little variable as possible. The truth lay there; and he who solved that problem, would certainly come to the wisest conclusion.”—*Lord Liverpool’s Speech, Times, Feb. 17, 1826.*

and, although it is the want and not the science of mankind which has ever been the parent of invention, yet it is science alone that has taught us to explain the causes of obvious phenomena, and thereby enabled us to direct them to our own advantage. But it requires some labour to reason, and to reflect; and since ease is the first of animal gratifications, as few men like mental as bodily exertion. Hence they invent all kinds of pretexts to excuse themselves from the trouble of examining into subjects, which they are conscious it is their duty to understand. Nothing can be more indisputable, than that it is the duty of men to study the principles by which their actions ought to be governed ; yet when, in 1810, the committee on bullion excited the public attention to the nature of currency (a subject which had been lost sight of for some years), they, who supported the principles therein developed, were assailed as visionaries and theorists by those, who, assuming to themselves the title of " practical men," proved themselves, at the same time, utterly ignorant of any rule by which to regulate their own conduct; so that, to every one of the assailants it might be justly said,

Nescis, quo valeat nummus, quem præbeat usum.

A merchant or banker, who does not understand the principles of currency, is a mere au-

tomaton ; he might as well be made of cast iron, and sign his name by steam : and to hear men in those stations ridiculing all study of these principles as matters of mere theory, the truth or falsehood of which is immaterial for any practical purpose, is as reprehensible as it would be in a physician to ridicule anatomy and chemistry, as theories with which the art of healing had no immediate connection.

There are some persons, who, having investigated the truth of this department of economical science, perceive, that they cannot by any legitimate reasoning contravene its positions; but who, being bred up in the trammels of old habits, and the contracted sphere of a counting-house, either cannot apply general views to their own little employment, or apprehend that the adoption of them, if universally acted on, would interfere with their particular gains. The objections of such persons are*, "that these positions, although undeniably true, and such as would be excellent, if they were to be applied to a new country, or to one in which opposite maxims had not long been acted upon, are dangerous to be adopted in this country, burdened with so heavy a debt, and so oppressed by taxation: that we had thriven well under a contrary system, and that these views

* See, for an example, the debates on the Silk Trade.

would make great inroads upon our financial and commercial arrangements; that, however true upon paper, the wisdom of statesmen is shown in knowing when to depart from and modify principles, which might be too rigidly followed up; and that, above all, this is not the time." It is waste of words to argue with such objectors: no time would ever arrive in which they could be brought to confess it was right to act upon principles which they could not overthrow. These objectors are like the slave-owners, who, under the mask of arguing against the present being the time for the abolition of slavery, secretly intend to keep their fellow-creatures for ever in their inhuman fangs. The utmost that can be allowed to them is, that in those cases in which large capitals have been embarked in pernicious monopolies, sufficient time should be granted for the capitals to be withdrawn, and invested in some other employment: but the more time it is necessary to grant for this purpose, the more indispensable it is not to delay an hour in taking the first step.

They, who plume themselves upon being what they please to term "practical men," are fond of bringing forward insulated facts, from whence they draw unwarrantable conclusions; and when these facts are shown to be irrelevant, and the

conclusions false, abuse as theories the arguments by which they are exposed. A collection of facts, however extensive, is perfectly useless for every practical purpose; that is, as a guide for future conduct, until it has enabled us to frame a theory which explains the causes and the consequences of those facts; and so far is it from being true, that a mere practical man (that is, a man who has no theory on the subject which he is handling) is a person to be relied on for facts, as some people erroneously suppose, no man is competent to observe and note a fact, who is not conversant with the theory of the subject to which the fact relates; for the observation of Cullen is perfectly correct, that there are many more false facts than false theories in the world. Neither is it true, that correct principles of currency can be departed from with impunity, and are of no practical importance; for a wrong apprehension of them has led to more direct ruin of individuals, and classes, than any other error in government. It is painful to speak of the directors of the Bank of England, because they are most amiable and honourable men*; but it is

* These are not words of unmeaning compliment; and I fully subscribe to the following observations of Mr. John Smith: "I would defy any man to show, in the history of the commercial world, a more strict personal integrity than is to

indisputable, that their conduct has been directly at variance with the principles developed in the following Propositions; and that, consequently, their practice has been erroneous, and has aggravated the evil, arising from fluctuations in the value of the currency, which has occurred. Nor can they on that account be justly blamed: they declared their conviction of the truth of opposite maxims in their evidence before repeated committees of parliament: they asserted in their

be found in the conduct of the Governors of the Bank of England, in the whole of their money transactions with the public. I will take, for instance, the period of 1816, when the Bank was deriving enormous profits; how acquired, I will not stop to consider. At this period, when they divided the immense sum of 25*l.* per cent. upon the capital stock (a circumstance, the previous knowledge of which would have made the fortune of any individual), yet, on examining the books, not a single director was found to have availed himself of his private knowledge, or to have possessed one shilling more of stock than was necessary to his being constituted a director, according to the charter."—*Debate on Small Note Bill*, Feb. 1826. Notwithstanding this testimony to the personal character of the directors, it is not inconsistent to contend with Hardcastle (p. 62), "That no greater evil can be imagined, than that an establishment should have the power (not by means of its capital, but by the expansion or contraction of its issues of mere paper), either to raise or lower the money-value of all property, both real and personal; and, according to its good will and pleasure, to influence and regulate the transactions of every member of the community."

own court, on Sept. 22, 1825, that the fluctuations in the money market had not been occasioned by them. They would, with their views, have been wrong if they had acted otherwise than in the way they have; it is owing to their ignorance of the power they possessed that they have done so little harm: the fault has been with Government, which, in the report presented previously to the introduction of Mr. Peel's bill, admitted the principle here contended for, and yet left the power of creating unlimited paper money in the hands of various irresponsible individuals all over the kingdom.

If the principles of currency had been well understood, not a particle of the distresses, which have so often occurred, could have been experienced. We should not have heard at one time of the ruin of the country being threatened by a drain of gold from the bank, nor of a bank restriction bill as a remedy for so visionary an evil. We should not have had the effects of a sudden and violent return from depreciated paper to a metallic currency, ascribed to a transition state from war to peace, nor to too great a remission of taxes; to over-population, nor to over-production; to over-trading, nor to over-farming: neither should we have had a rapid rise in the prices of all the productions of industry, cited as

a proof of solid and permanent commercial prosperity*.

The ordinary refuge for wilful ignorance on this question is the alleged discrepancy between writers on political economy. As long as the minds of men are of varied powers, so long must the portion of truth which each can perceive, on any given subject, vary in a corresponding degree. If the objection on that ground be made against the study of all sciences, and that of political economy be only included with the rest, the assertion at least has the merit of impartiality, although it scarcely merits serious refutation. But if it be meant to insinuate, that the diversity of sentiment be greater among political economists, than amongst writers upon any other science, the charge has not a vestige of truth to rest upon. Let the charge, however, be granted; it proves nothing but the anxiety of the objector to receive the dictum of some great name as

* "There never was a period in the history of this country, when all the great interests of the nation were at the same time in so thriving a condition."—*King's Speech, Feb. 1825.*

"These are persons who imagine our prosperity is not permanent; but the House, I am sure, will concur with me in opinion, that it rests on the most solid foundation."—*Chancellor of the Exchequer, March, 1825.*

the article of his faith, without giving himself the trouble to investigate the foundation upon which it stands. The greater the ignorance, the greater difficulty there is of reconciling apparent contradictions on any subject. If a person, unskilled in medicine, read two or three medical treatises successively, he will rise from them with his mind in a state of complete confusion, and the last read work will appear to be at variance with all the preceding; yet the bases on which medical science is supported are as fixed as the nature of the subjects on which it treats will permit, although not more fixed than those of political economy. Even in those arts which are nearly mechanical, variations perpetually take place; yet it would be in the highest degree absurd to say, that the art itself were useless, or its principles unfixed, because certain anomalies presented themselves to a superficial observer. In agriculture, for example, no point can be more settled than the advantage of an alternation of crops; yet the longer a pasture has been unbroken, the more productive with due care it becomes: does the discordance of these two facts prove, that there are no fixed principles in agriculture, or that there is no agreement of opinion amongst farmers? that it is immaterial whether the seed be thrown into the ground at one season or at another? and that the

principles which direct the alternation and course of cropping are matters of mere theory, and of no practical importance? Unless every transaction, of whatever business a man carries on, be conducted upon fixed principles, it never can be carried on securely, nor stand the storms and tempests which must agitate, at one time or other, every portion of human society.

I recommend to those who affect to justify their own want of steady principles by the alleged discrepancy in the statements of Smith, Ricardo, M'Culloch, Mills, and Malthus*, to attend to the following extract from the London Magazine, on the discordance of physicians : the reasoning is quite as logical, and the humour much greater : —

“ The history of small-pox is as well known to the people as to physicians. It was the fashion to keep the patient as warm as possible ; in warm rooms, warm blankets, with warm fires, and so on ; fresh air was esteemed poison ; cold air, death. And if this was a fashion, it was one not without its philosophy and its good reasons. The eruption was ‘ better out than in : ’ it might be checked ; and, therefore, also, cordial and hot drinks formed part of the fashion. But times at

* See Debates in the House of Commons, Feb. 24, 1826.

last revolved, though old women, here and there, still hold to the old doctrines and fashions; and it is not very likely that the fashion will retrograde again.

"A rational physician knows, that cold has the same virtues in measles and scarlet fever as in small-pox; but it is still the fashion to keep the measles warm, for the same reason, or lest the eruption should be repelled; and should the reverse be attempted, all the women, and nine-tenths of the apothecaries, would be up in arms."

What a series of apparent absurdities bewilder the tyro who dabbles with practical chemistry! He finds that water is made of the most combustible materials; that earth is no earth, but a metal; that instead of but one air, there are a score; that diamonds are only charcoal, and charcoal diamonds; that there are substances of immense power which he can neither see nor weigh; that he himself has been all his life a plus or minus electrifying machine; and that if he were distilled he would be found to contain little but azot and carbon.

But it is not with the sciences of medicine and chemistry alone that political economy will bear the strictest comparison. Let us take at once the sublimest of all sciences, astronomy, and it will be found, that the conclusions of political economy

are drawn from premises as susceptible of proof, are as much in agreement with each other, and are as little affected by the differences of writers who have treated it, as those of astronomy itself. Every astronomer knows, that by far the larger portion of that which he believes to be true concerning it, rests entirely upon hypothesis ; and that “ the highest degree of certainty to which he can arrive is an ascertained and tangible analogy, and that, consequently, it admits of more abstract argument, and allows a greater play of the imagination than any other of the sciences.” The proportion of the magnitudes of the heavenly bodies to each other rests purely upon hypothesis. The annual and diurnal revolution of the earth, directly opposed to the daily sensations and eyes of the *practical* ploughboy, are founded on hypothesis. So absurd, indeed, did this revolution appear to all sober *practical* men when it was first demonstrated, that Copernicus dared not mention it for many years : the *practical* men in Italy constrained the pope reluctantly to put Galileo in prison, and made him learn penitential psalms by heart to purge away his philosophy ; and when Jaquier, and Le Sieur, published at Rome, so late as 1742, the theories of that speculative heretic, Sir Isaac Newton, upon the same subject, they wisely inserted in a preface, that they did not presume to believe that which they had proved to

be true, unless that *practical* man, the pope, should happen to be of the same opinion.

The great misfortune is, that the “*practical*” men, that is, those who act without the guide of reason or reflection, are always the most numerous, and the most powerful. Dr. Harvey, the author of the most important discovery that ever was made in physiology, complains in a letter to his friend, that he was no longer consulted as a physician by the “*practical*” men of his day: he was a theorist in their eyes, and therefore considered unsafe to be trusted. There is scarcely an instance in the history of human merit to be found, of a man conferring a benefit on his fellow-creatures by the superior powers of his head or heart, who has not been feared, hated, and slandered by his “*practical*” contemporaries; and at this present time we daily find attacks made upon the personal characters and motives of the more enlightened members of the king’s government, when all efforts to defeat their arguments have proved unavailing. “Calumny is the tax paid for celebrity,” and an increase of information is never made by the generation in which it is first promulgated; for, as Locke observes, few men after fifty acquire a new idea.

It is to merchants and bankers particularly, that correct views of the principle of currency are indispensable. This has been generally felt of late

years, and there are many merchants and bankers who have consequently made themselves perfect masters of the subject. In 1793, 100 banking houses in various parts of the country were annihilated.* In 1825, nearly as many more were destroyed †; and it is not too much to assert, that not one such failure could have taken place, if the managers of these houses had understood and acted upon a correct rationale of their business. If there be one part of the empire, in which just views require to be more rigidly adhered to than another, it is in this metropolis. Here the common language of every day is calculated to delude: I refer particularly to that which points to the price of the public funds, as the sole criterion of financial and commercial prosperity. In the language of the Stock Exchange, the word "better" is made to mean, that the funds are rising; although, by so doing, interest is falling; and it is universally admitted, that a country is advancing in wealth, in proportion as the rate of interest is high ‡. All causes

* Macpherson's Annals, p. 266.

† Tooke, p. 38; Lord Liverpool, Debate, Feb. 17, 1826.

‡ "From a decline in the public funds (not proceeding from political causes), we must infer a rise in the rate of interest; and as the rate of interest is governed by the rate of profit on the employment of capital, and that an increasing rate of profit is highly favourable to the acquisition and accumulation of capital; so does it argue a much sounder state

of the rise of the funds are totally left out of consideration; if they have risen they must be "better"; the rise may have taken place from causes the most ruinous in their ultimate consequences; it may have taken place, as it almost always has*, from a progressive depreciation of the currency, which must in its re-action produce the ruin of thousands; it is of no consequence; stocks are rising, and therefore, in the cant of the Stock Exchange, "things are better." On the other hand, no consideration is ever paid to the causes of the fall of stocks: this fall may arise from enlightened ministers removing shackles from commerce, and thereby rendering trade more advantageous for the investment of money than the public funds: it may arise from greater activity in men leading them to prefer employing their money in some business, wherein, by the addition of their personal superintendance, they may gain a larger income than they can by leaving it idly in the Government annuities; such considerations never alter the phraseology of the stockjobbers, which is still the same to denote falling stocks, namely, "things are worse."

of things, that the rate of interest should be gradually advancing, than that it should gradually recede."—*Hardcastle*, p. 69.

* See *Mushet*.

I once heard a young man, who spent his nights at a gaming table, say, that he liked to have some money in the funds, because it was pleasant to him, when he went to bed in the morning, to think, that his money was still playing, although he could not personally play with it. Whatever else may be thought of the sentiment, it is at least to be allowed, that this worthy personage had correct views of the nature of the Stock Exchange. It is little better than a great gaming house; and it is as absurd to suppose, that a high price of the funds is an infallible test of public prosperity, as it would be to quote the bets at Tattersall's for the same purpose. Although some honourable and respectable men are to be found there, yet many of the habitual frequenters of the Stock Exchange exist solely by gaming in the funds, and do not hesitate to propagate any falsehood by which their interest may be served. Let the following extract, from the Morning Chronicle of Feb. 24, 1826, serve as an example :—

“ The extraordinary excitation, which was produced in the city on Wednesday, by the propagation of rumours as malicious as they were unfounded, had yesterday subsided, and a strong feeling of indignation was expressed, not only towards those persons who were the inventors of the calumnies, but those who assisted in giving them greater publicity. There appears to have been no

ground whatever for the suspicion, that two London Houses would fail, and it is now pretty evident that all these *alarms were spread by a gang of organised conspirators, whose interests were to be promoted in producing a fall in the market, so as to relieve them from the effect of the rise which had taken place, on the approaching settling-day.*"

I have already observed, that, of all the subdivisions into which the science of political economy may be separated, there is not one of so much importance as the laws which regulate the currency. It is on this account that I have endeavoured to condense the subject into the shortest possible space in the following Propositions, hoping thereby to overcome the reluctance of some persons to their consideration. It might be admitted, that the subject is dry; but the elements of every subject are always dry; all grammar is dry; mere technicology must be dry: but *ignorata sermo, ignorata et ars*; and as it is a point upon which the property of every individual, from the king to the peasant, turns, there is no one, whether landlord, farmer, labourer, manufacturer, merchant, or banker, who is not deeply interested, not only in understanding the subject himself, but in assisting others to understand it likewise.

ELEMENTARY PROPOSITIONS,

&c. &c.

1. TRADE is the Exchange of one Commodity for another*.

2. The *intrinsic* value of a commodity is the quantum of skill and labour required for its production : the *marketable* value is as the supply and demand.

3. As simple barter is inconvenient, a common representative of all commodities has been chosen to facilitate exchange.

* This proposition seems so self-evident, that no one, on first hearing it, thinks of denying it. Yet it is denied every day : and the country is annually congratulated by Chancellors of the Exchequer upon the excess of its exports over its imports. But if this proposition be true, as it indisputably is, 1st, there is no such excess : and, 2dly, if there were, it would be matter for regret and not for congratulation ; because it is in fact saying, that our manufacturers have sent out a portion of their commodities for which they have received nothing in return. I do not believe that they annually do any such thing ; and if they do, they are foolish, and deserve censure, not congratulation.

4. This common representative is Precious Metal.

5. Precious Metal is less liable to waste than most things ; it is also little likely to be suddenly increased or diminished in any considerable quantity ; it is therefore the best representative that can be found.

6. Being the representative, it is consequently the standard measure of the values of the represented commodities ; and if it could be as fixed a measure of value as a foot rule is of space, it would be so much the better ; it is only the best that can be found.

7. Coining is the State's warranty of the Metal's purity*.

8. All commodities are said to be dear or cheap as they require more or less of this representative to be given for them ; which expressions can have no meaning but in reference to the standard (6) by which the commodities are measured †.

* It is necessary for a State to fix the number of parts into which it will divide a given portion of metal for its currency, and this fixed number of parts is called the Mint Price of the metal : *i. e.* if a pound of gold is coined into 40 equal parts, each called a Sovereign, the Mint Price of a pound of gold is said to be 40 Sovereigns. The Mint should coin any bullion that is brought to it, either gratis, or at a very low price.

† As Precious Metal is the standard by which all other commodities are measured, to say that it is dear or cheap, is a contradiction in terms.

9. If there be a smaller quantity of metal in a country at one period than at a prior one, the price of other commodities (their quantities and intrinsic value remaining the same) is said to have fallen : *i e.* a smaller quantity of Metal must represent the same quantity of commodities, and *vice versa**.

10. A country must always contain that quantity of Metal which is necessary for its trade: for if the quantity of Metal in it were so *small* that commodities had greatly *fallen* in price, they would be sent out of the country to be exchanged for Metal to be brought back. If the quantity of Metal in it were so *great* that commodities had greatly *risen* in price, the Metal would be exported rather than the commodities, and foreign commodities brought back instead †.

* If there be a joint currency of Metal and Paper, and any circumstances should cause an export of the metal, it will be necessary for the issuers of that Paper to diminish its quantity also, that the Paper, becoming smaller in quantity, may rise in value in proportion as the Metal rises. At the time of the Bank Restriction Bill, Paper ought to have been withdrawn, and the Bill immediately repealed: and had the true principles of currency been understood, it would never have been passed.

† The quantity of payments to be made is no criterion of the quantity of currency required to make them. It follows also, that no foreign loans, nor subsidies, nor remittances to troops abroad, nor overtrading, nor overspeculation, however

11. Thus a country must keep that quantity of Metal which is necessary to facilitate its barter, and no more*.

12. As trading by means of Precious Metal is more convenient than simple barter (3, 4), so Paper is more convenient than Metal ; but Paper is deficient in all the other qualities that Metal pos- absurd as was ignorantly asserted to be the case in 1796, 1810, and 1826, need necessarily occasion the export of a single ounce of precious Metal.

* The old notion of the Balance of trade continuing against a country is, it is to be hoped, becoming exploded, for it is seen to be impossible and absurd. The opinion entertained by the wisdom of our ancestors was, that the riches of a man or of a country consisted exclusively in gold. This fanciful theory still hangs about many people, and they accordingly think, that when what they call an unfavourable balance of trade exists against any country ; *i. e.* when at any given day of making up accounts it is found that the country has imported more than it has exported, the deficiency can only be adjusted by an export of Gold—so much for the theory ; but the fact is, that a balance is liquidated less often in gold than in any other commodity ; and never, unless gold is cheaper in the remitting country than any other commodity. There are men, however, who still maintain that the loans to Austria caused a drain of gold on the bank previous to the stoppage in 1797 ; and that the scarcity of coin in 1810 was owing to its being remitted to our army in the Peninsula. But, in point of fact, the Emperor never saw an English guinea in his life ; and sending the precious metals to Spain must be about as wise a process as sending coals to Newcastle.

Any Law tending to control the export and import of Precious Metal may do harm, but can do no good.

sesses ; 1st, It is very liable to waste ; 2^{dly}, It may be suddenly increased or diminished in any quantity ; it wants, therefore, all the necessary qualifications which ought to constitute a standard (6)*.

13. Paper then is an equivalent for Precious Metal, only inasmuch as it is convertible into it at the will of the holder. Paper being the representative of a representative.

14. The coined Metal or Paper, used in the internal trade of a country as its representative, is called the Currency of that country.

15. A given portion of Paper is said to be worth a given portion of Metal (not according to its intrinsic, nor to its marketable value), (2) but, because it is convertible into that quantity of metal which it professes to be.

16. It has been (10) shown, that the necessary quantity of Metal is preserved in a country by its free import and export : if Paper be substituted for Metal, besides the other defects mentioned (12), this is superadded, *viz.* that it cannot be exported, because it is useless everywhere but in the country in which it was first issued : the same methods, therefore, which regulate the due quan-

* Precious Metal is of great intrinsic value ; Paper is of very low intrinsic value ; so that a greater quantity of unproductive capital is locked up in a Metallic than in a Paper circulation, which is another advantage in favour of Paper.

tity of Metal in a country, cannot regulate the due quantity of Paper.

17. If the currency of a country be composed partly of Metal and partly of Paper, and if, from too great a quantity of Metal being imported and coined, or too great a quantity of Paper issued, the currency become redundant, as the Paper cannot be exported to rectify it (16), the Metal will (10); and if the Paper be convertible into Metal, as much will be so converted, and the Metal exported, as will reduce the quantity of currency to the same amount as if there had been no Paper at all.

18. As long therefore as the Paper currency be convertible into a metallic one, the *joint quantity* of the two will never be greater nor less than it would be if there were no Paper at all, and therefore the Paper will be as efficient a representative as the Metal.

19. The *relative quantities* of the two at any given period will vary from any other given period, according to the convenience of traders, and are immaterial, as the *joint quality* is the essential circumstance*.

* As it is the paper, which has a constant tendency to become redundant, and as, sooner or later, this redundancy must be diminished, the greater the proportion of convertible paper in the currency of any country, the greater will be the fluctuations in the value of the whole currency.

20. If the Paper be not convertible; if the quantity of currency become redundant; and if the redundancy be greater than the export of Metal can correct (10, 16), the remaining Paper currency will be depreciated; *i. e.* will not be worth so much as it professes to be (15), and the prices of all other commodities will rise (9).

21. It has been shown (9) that the smaller the quantity of currency be in a country at any one given time, the lower must be the prices of all other commodities at that time; and that if the Metallic part of that currency be exported, it is because there is a redundancy of currency; if this redundancy were to be relieved by any other means, the same effect would be produced as if the Metal were exported*.

22. It has been shown also, that as soon as the redundancy is reduced, no farther export of Metal

* The first clause of this proposition is the clue by which all the intricacies, which have marked the rise and fall in commodities since 1793, may be unravelled. Whenever commodities were dear, prices high, and people thought themselves in a state of prosperity, it was owing to more of this representative being created; that is, more paper issued. The recall of this extra paper produced the subsequent falls in the prices of commodities, and consequent ruin of those persons, who had bought them dear, and were compelled to sell them cheap; the fall being proportionate to the preceding rise.

can take place; consequently if the redundancy were relieved by any other means, no export at all would take place.

23. As the Metal is exported because the *joint* currency is in excess (17), and as, if this excess be removed by any other means, the *metallic* part would not be exported (22); were a sufficient part of the Paper withdrawn from circulation, no export of Metal would take place*.

24. It follows, therefore, that wherever there is no Metal in circulation, it is because the Paper is in excess: and that no measure can be effectual to make Metal return to a country from whence it has disappeared, but the withdrawing part of its Paper currency from circulation, and making the remainder convertible into metal, *ad libitum*.

THE country has recently been involved in what has been unanimously described by his Majesty's ministers, and by all the merchants and bankers in

* Other circumstances besides the quantity of Paper can cause a variation in the supply of Bullion, but nothing can permanently exclude it, nor permanently maintain it as currency, but the regulation of the Paper which circulates together with it.

the House of Commons, to be a state of “unexampled distress.” It is necessary to inquire what was the cause of this distress; because, if the same cause exists now, no one will venture to deny, that similar causes must produce similar results; and that it is our bounden duty to provide a remedy, or to warn the public to be prepared for the result.

The currency of Great Britain is computed to consist of 60,000,000*l.*, of which 20,000,000*l.* is said to be in the precious metals; 20,000,000*l.* in Bank of England paper, 12,000,000*l.* in country bankers’ paper, and 8,000,000*l.* private bills.

If the whole of this currency were to be made of the precious metals, it would cause 40,000,000*l.* of the capital of the country to be immediately sunk in forming it; and it would cost a farther sum of 2,000,000*l.* annually, to supply the wear and tear of the coins, expense of assaying, coining, &c., and the loss of interest on the whole additional 40,000,000*l.*

But as the withdrawing of the paper from circulation would lead to a great demand for metals from abroad, producing a scarcity, and consequently a rise in their value elsewhere, it is probable that paper, of private traders, would be more resorted to than it is at present; and thus

less currency would answer the purposes of trade, and that 20,000,000*l.* of metallic currency would suffice, in addition to the 20,000,000*l.* already existing.

A currency of 40,000,000*l.* of gold would, however, not only be a currency of higher value than the present, in the proportion of two to three, causing, consequently, the reduction of the price of all commodities to that extent, but it would be as much higher than the value of the present currency, as the proportion of gold in this country, as compared with the rest of the world at that time, would be greater than the proportion of metal now in this country, as compared with the rest of the world at this time; so that the effect of resorting to a metallic currency *might be* to lower the price of all commodities nearly one-half.

This would of itself be immaterial; but another effect would be to double the amount of the taxes; to double the amount of debts, mortgages, annuities, &c.; to double the salaries of the public servants, pensioners, soldiers, sailors, &c.; causing a pressure upon the people which would probably produce some ruinous convulsion.

If, therefore, any bill, which enacts that we shall return to a metallic currency, were to be

carried into full effect, it would be absolutely necessary to make some regulation upon the points specified in the last paragraph; otherwise, such a bill cannot be carried into effect; and merely to enact, that this country shall return to a metallic currency, without accompanying that measure by others, is absurd, because it is not possible, *simpliciter*, to adopt it. There would besides be a flagrant injustice in doing so; for it would compel us to pay the fundholder in a currency of a higher value than he lent; or, in other words, to pay him more than we borrowed.

There are two modes, however, by which it may be partially adopted: the one is by avowedly depreciating the coin; that is, enacting that one sovereign should pass for two (a measure for which much might be said, which is here passed by); the other mode is, and it is in fact the same as the former, only in a more circuitous, and therefore less obvious way, by keeping up, as we are doing at present, the largest possible amount of paper, with the smallest possible amount of metal.

This mode being the one now actually in operation, is certainly the better one to continue to adopt; but it is absolutely absurd to enact, that any body or bodies, be they Bank of England, or others holding this paper, shall, on any sudden

emergency, no matter from what cause arising, be called upon for the payment of a debt in one description, and one value of currency, which was contracted in another description, and another value; whilst, on the other hand, there is no preservative against an over-issue of paper, and consequent depreciation of the currency to any amount, except the convertibility of that paper, under some form or other, into the precious metals, at the will of the holder.

To meet the first branch of this dilemma, it is indispensable that paper, the existence of which is sanctioned by the Legislature, should be a legal tender; and for this reason, I doubt the propriety of there being more than one chartered bank, which should be the bank of the state, and its paper alone the legal tender. But however this may be, all in substance that I contend for is, that if we are to have a paper currency authorized by law, that paper shall be made available to us at the time we want it most, and not only at the times when we want it least; that it shall be of use to us in times of sudden panics, when it is physically impossible to procure gold to give in exchange to the holder of paper, and not of use only when it is as easy to procure gold as paper. To meet the other branch of the dilemma, it is necessary to enact, that paper shall

be legal tender for no sum above the value of 100 ounces of gold bullion; and, in order to save the delay and expense of useless coining, that bullion, stamped at the Mint, shall be given instead of coin, according to the plan of Mr. Ricardo.

Recent events have shown, that the mere convertibility of paper into metal is not sufficient to constitute a safe currency, without there be a farther control upon the issue of paper. For it appears, that the public is not aware sufficiently early of the depreciation that is going on, to check it before it gets to so great a height, that the difference between its greatest amount (*i. e.* the highest price of commodities) and its lowest amount, which ensues in consequence of the reaction by the contraction of the paper (*i. e.* the lowest price of commodities) is so great, as to cause enormous loss to, if not the ruin of, all men who have engaged to make payments, at the time of the latter state of the currency, for commodities, which were contracted for in the former. The rise in the price of every production during the year 1824, and beginning of 1825, showed to all persons who understood the principles of currency, that there was a depreciation of the currency going on, although it was impossible to ascertain the amount of it, nor precisely the

quarter whence it originated*. It has subse-

* The following Comparative Statement of the Prices of different Articles is taken from Mr. Tooke, p. 196:—

ARTICLES.	Price, 1823.	Price, 1825.
Cochineal, Spanish	24	26
Cotton, Bowed Georgia.....	10½	18½
Bengal, Surat	8½	13½
Indigo, East India.....	12	16
Iron, British	7	13
Lead, ditto.....	23½	30½
Spices, Cinnamon	8½	13½
Mace	6½	18
Nutmegs	3½	12
Pepper, black	7½	9½
Sugar, B. P. Gaz. average	38	45
Havannah, white	48	57
Silk, Reggio	16	17
China, raw.....	22	28
Speltre	30½	41½
Tallow, St. Petersburgh, yellow, common	37	43
Tobacco, Virginia, ordinary and middling...	3½	6½
Wool, German, fine	8½	9½
Wheat (Torrens, p. 274)	51½	66
Three per Cent. Consols (March)	73½	94

Whilst currency is becoming redundant, interest continues falling, and men endeavour to employ the capital so created in any way which seems to promise a higher rate than they make in their ordinary business. Hence a variety of disturbing causes are immediately put into operation; otherwise, the rise of prices would be exactly commensurate with the fall in the currency; but such is not the case in all instances;

quently appeared to have arisen partly from the issue of Bank of England, but chiefly from the issue of country paper. The convertibility of the paper into gold prevented the depreciation going farther than it did, and caused its being again diminished in quantity; but the suddenness of its contraction produced the ruin of thousands, which many of the sufferers, such as labourers and tradesmen, could not prevent by any management, however prudent. It has been said in the House of Commons, that the ignorance of the Bank Directors, of sound principles of currency, prevented their taking such steps as would have obviated much of the evil; but as there is no reason to suppose that any mode of appointing Directors of the Bank would ensure the election of more intelligent men (and more honest and conscientious cannot be found) than are there at present, it ought not to be left in their power to produce the ruin of any individual, far less of any large class of the king's subjects.

It is true that the mere convertibility of the paper is sufficient to prevent its ultimate depreciation, and to make the currency right itself*; so

for a small *artificial* fall in the value of currency, causes a very great *artificial* and *unequal* rise in the prices of all commodities.

* "There was one point to which he would advert, because he thought the doctrine contained in it was most erroneous.

that at the end of 100 years, the paper, *upon the average*, during that period, will not have been depreciated. But the mere convertibility is not sufficient to prevent ruinous vacillations, ebbs and flows to an immense amount, so that it may be doubtful whether as much capital would not have been destroyed at the conclusion of 100 years, as would have been, by at once returning to a complete metallic currency, and depreciating the coin one-half. It is the more necessary to dwell upon this subject, because Mr. Maberley, in a speech much commended by Mr. Huskisson, erroneously contended, that the foreign exchanges immediately indicated the depreciation of the currency, the very moment that it occurred; whereas, the bare fact of the coin being exported, is proof sufficient of the currency being in excess, whether the exchanges indicate it or not.

That the mere convertibility of the paper cannot check depreciation until it has proceeded

On that doctrine the country bank-note circulation had been principally defended, and that was, that there was nothing better than a paper circulation, convertible into gold. Now, that doctrine was true only to a certain extent, namely, that wherever a paper circulation was convertible into coin, its evils would, in the end, cure themselves. That cure, however, could only be carried into effect at the expense of the ruin of hundreds of thousands of persons; and a cure with such consequences was almost as bad as the endurance of the evil itself."—*Lord Liverpool's Speech, Feb. 17, 1826.*

great lengths, will be obvious from considering the rise and progress of the evil. An issuer of paper lends an extra quantity of paper, say 10,000*l.* to a manufacturer of cloth, who causes therewith so much extra cloth to be produced. This is exported, in the usual course of trade, by the merchant, and as much cochineal as was heretofore equivalent, and which would have remained equivalent, if the currencies had remained the same, is imported in its stead. But it is not until the adjustment of the account, between the merchants in this country and the merchants to whom the cloth is remitted, and who have remitted the cochineal in exchange for it, that it is discovered whether the balance be in favour of one party or the other, and whether a further export of commodities or of bullion must be sent out in return for what has been received*. If the

* A small extra issue of Bank of England paper may facilitate a much greater extra issue of country paper, and the two together will facilitate and produce an extra quantity of private bills, acceptances, &c., to a greater amount of this latter than can be well ascertained. A large proportion of the transactions which caused the rise of prices was done by means of acceptances, and transfer of joint-stock-companies' shares. The amount of these shares, which were transferred for commodities, was considerable; and it is said by some very inquisitive and intelligent men, that the excess of these acceptances exceeded by many times the amount of the excess of bank and country notes. On this subject, a gentleman of great accuracy wrote to me as follows: "The issues of

cloth cost 10,000*l.* here, it should sell for 10,000*l.* there also. But as the extra issue of paper here made currency more plentiful, more of it was given for the making of the cloth; and the real value of the cloth, when measured by the currency of the country to which it was sent, and from whence the cochineal was returned, was found to be only 9,000*l.* More cloth, therefore, must be sent, or bullion to the amount of another 1,000*l.*; and as the same process that had raised the cloth, which was really only worth 9,000*l.*, to the apparent value of 10,000*l.*, had been performing the same operation upon all other manufactures, bullion would be the cheapest commodity in the country, and would be sent out to make up for the deficient value of the cloth.

The time of the adjustment of this account will vary according to the place to which the productions have been sent. An adjustment with China, obviously cannot take place so soon as an adjustment with France; and although the cur-

paper-money were aided to a monstrous extent by acceptances. I know three men in one connection, and five in another (I do not mean as partners), who contrived to get out, and to keep out, nearly half a million of their notes; and it appears, that they only wanted a little more time to make the large businesses, in which they embarked, and supported, profitable. They have all failed but one, and have put upwards of 300 persons out of employment. Such things as these were carried on to a monstrous extent."

rency was in point of fact in excess, the moment the notes were paid out of the hands of the issuer into those of the manufacturer, it is probably a year or eighteen months, at the soonest, that the depreciation can be suspected.

If this were an insulated transaction, the evil would be soon remedied; but, unfortunately, *vires acquirit eundo*. The first operation is an extra demand for labour, and consequently, of all the things consumed by the labourers: extra demand for their goods, causes more manufacturers to seek for assistance to manufacture more goods, by applying for notes, which they erroneously believe to be solid money: the more prices rise, the more notes are demanded; and the more notes are lent, the more prices rise. The country bankers, one and all, avow, that the more prices rise, the more notes they issue; so that before the adjustment of the first transaction of over-issue, the whole country has become inundated with a false currency, which suddenly reveals itself, by the public hearing that all the gold has gone out of the country, at which the people are seized with amazement and alarm. The evil also will be severer or lighter, according to whether a large stock of the extra commodities shall have been accumulated at home, before they were sent abroad; for as long as the employment of the notes, and the labour they have set in motion, be *confined to*

this country, it is impossible for any variation to take place in the *foreign exchanges*.

As soon as the public becomes alarmed, the poorest members of it very wisely endeavour to convert all the paper in their possession into gold. Their doing so, however, increases the embarrassment; and it is now proposed in Parliament, to take from them the power of aggravating such an evil, by suppressing all notes under the value of 5*l.* If the country bankers have lent upon mortgage, or locked up, in any similar way, the funds deposited with them, this measure will cause many of them to break. This, however, may be called only a temporary evil, and as such justified. The permanent effect of the measure will be to cause a considerable loss to the capital of the country, diminishing the power of employing labour, produce a great fall in prices, dismissal and starvation of labourers, and increase of the taxes and salaries of the public servants; because it will raise the value of the currency. But since the breaking of the country banks affects principally the labouring classes, whose wages are exclusively paid in such notes, producing the greatest misery and distress amongst them, it is a lesser evil that the capital should be sunk, than that the labourers be so much robbed. At all events, this measure ought to be resorted to, until some plan be found out

adequate to give us a secure paper currency. At the same time it is to be remembered, that this measure is not an absolute preservative against the effects of panic, because the largest run that ever was made upon the Bank of England, was made at a period when no small notes were in existence; and farther, that the chance of forging coin successfully is much greater than that of forging country paper; and if the punishment of death were taken away altogether for forgery, the issuers of paper would readily find means of preventing its successful imitation.

The only effectual preservative against over-issues of paper, is to take from all persons, who have a personal interest in depreciating the currency, the power to do so. It is idle to contend, that laws to regulate the issue of notes, payable on demand, is an uncalled for interference of government with the freedom of trade. Issuing notes is not trading, but coining money: a power which no sovereign but that of England ever suffered to depart from his own hands, and which never can be safely lodged in any other. If it is deemed necessary to continue the punishment of death as the penalty for putting into circulation worthless coin, it is passing strange that no penalty whatever should be affixed to putting into circulation worthless paper. It would puzzle a whole college of Jesuits to explain the moral

difference between the two offences, and the evil to the community must be acknowledged equal in both cases. No promissory notes, payable on demand, ought to be issued by any company or individual, but the bank of the state; and an account of its affairs ought to be regularly published every quarter, together with the amount of bullion purchased, imported, exported, and coined, that the public may always know exactly how it stands, and upon what principles its conduct is regulated; at the same time, means should be found to prevent its being a mere tool of the executive, as the Bank of England has often been hitherto.

As we cannot dispense with a paper currency, paper must be made a legal tender; for if it be not, great ruin must ensue at particular periods, whenever a sudden and general demand for gold shall be made upon the banks which issue the paper. It is obvious, that it is physically impossible for 20,000,000*l.* of coin to satisfy the demanders of it in exchange for 40,000,000*l.* of paper. On the other hand, if all paper be made legal tender, there is an end to its convertibility into gold, and consequently to all prevention of an over-issue of it. This is a dilemma necessarily arising out of a large paper currency, the fluctuations in the value of which must be commensurate with the proportion, that the paper shall

exceed the coin; and the best remedy is to make one paper only legal tender, and this paper should be one over which Parliament can exercise a control.

There is one other mode by which fluctuations in the value of the currency might be prevented, that is by fixing the amount of paper, which shall be issued, by law. Suppose, for instance, that the commerce of the country requires a currency of 60,000,000*l.*; let a law authorize the issue (if by the Treasury*, so much the better) of 40,000,000*l.* of paper; this of course to be the only paper payable on demand in the country, legal tender, &c., and let the remainder of the currency be made up of coin. The state of trade could never be such as to make 40,000,000*l.* of paper excessive, and the fluctuations in *quantity* of currency would take place in the coin alone, by which the *value* of the currency would remain fixed.

A plan has been recommended for giving increased solidity to the system of country banking, which is to increase the number of their partners, and ensure these partners being men of considerable property. But no number of partners, nor no extent of property can prevent men from over-issuing their paper, when it is their interest to do so. It must never be lost sight of, that the

* The political objections to this I purposely pass by.

root of all the distresses which have occurred ever since 1793, is to be found in an over-issue of paper. The partners in the Bank of England are numerous and opulent; but no country bank is more desirous of forcing its paper into circulation than is the Bank of England. The measure is no doubt a wise one, for other reasons*; that is, the law which limits the number of partners is very absurd and mischievous, and therefore it is a good thing to repeal it; but as to being a cure, or even the smallest prevention against the recurrence of evils similar to those which we are at this moment experiencing, it will not, nor cannot

* “The present system of law, as to banks, must now be altered in one way or other. It was the most absurd, the most inefficient; it had not one recommendation to stand upon. The present system was one of the fullest liberty, as to what was rotten and bad; but of the most complete restriction, as to all that was good. By it, a cobbler or a cheesemonger, without any proof of his ability to meet them, might issue his notes, unrestricted by any check whatever; while, on the other hand, more than six persons, however respectable, were not permitted to become partners in a bank, with whose notes the whole business of a country might be transacted. Altogether, this system was one so absurd, both in theory and practice, that it would not appear to deserve the slightest support, if it was attentively considered, even for a single moment.”—*Lord Liverpool’s Speech, 17th Feb. 1826.*

Is it not astonishing, after this speech, that Lord Liverpool has left the cobbler and cheesemonger the power still to issue his notes unrestricted by any check whatever?

have the remotest influence. It is farther proposed, that all issuers of notes should deposit a security for the notes which they issue; but this is as futile as the former part of the plan. Suppose a man with an estate or stock worth 50,000*l.* deposits this security, and obtains leave to issue 50,000*l.* notes; he then, with these, buys more land, to the amount of 10,000*l.*, deposits this, and issues again so many more notes. Thus he would proceed upon a system precisely analogous to that which the country bankers at present pursue; namely, increasing their issues in proportion to the rise in prices.

As it has been contended by Lord Liverpool, in a speech of great length*, "that the principal

* " Their lordships would recollect, that on a former occasion a noble lord had referred to an expression of his on the first day of the present session; referring also, as their lordships would recollect, to what had passed last session, that *such a crisis as that now existing was not unforeseen by himself and others.* The noble lord, their lordships would recollect, had not on that occasion repeated his whole declaration, and had said that he (Lord Liverpool) had not connected the great speculation in the country (to which he had referred) with country banks. Now it was distinctly in his own recollection, and their lordships would find, on referring to those floating records, which, however loose, generally gave an account of what passed before their lordships undoubtedly correct in substance, that he had, in some respects, gone out of his way to give notice to those embarked in the speculations of that period; and had then stated, that *those specula-*

source of the recent distress is to be found in the rash spirit of speculation, which has pervaded the *tions*, which he foresaw would *bring on distress and ruin*, and which induced him then to make the declaration, were not confined to this town, but had spread much more widely, and had extended through the whole of the country, through the medium of the country banks. Government had received intelligence of this, and numerous individuals knew of it as well as government. When he referred to this declaration, he did it out of no view of laying claim, he could assure their lordships, to any prophetic spirit, beyond that possessed by any other noble lords, who, in the course of business, had directed their attention to questions of that nature. Their lordships must say, when they recollect the numerous speculations of the last year, the mining speculations, the loans to foreign countries, the various extravagant projects which were on foot, that it was impossible but sooner or later a re-action must take place. In discussing the proposed measures, he should first endeavour to ascertain the causes of the present distress. *And he had no difficulty in stating, that he agreed with those who had ascribed the principal part of the evil to those extraordinary and extravagant speculations which were afloat in this country during the last year, and which undoubtedly had their origin in the then great prosperity of the country.*"—*Lord Liverpool's Speech, 17th Feb. 1826.*

That is, speculation has brought on distress and ruin—The great prosperity of the country has brought on speculation—*Ergo*, great prosperity has brought on distress and ruin!

It is impossible, therefore, that his lordship can have given any warning, for it is obvious that he is even now in error as to the cause of the recent distress; and moreover, he represented, in the king's speech at the close of the session of 1825, as did also his colleague, the Chancellor of the Exchequer, the high prices as founded upon, and being a proof

country for some time," and as such a position is most alarming, as it proves the utter ignorance of the Government as to the real cause of these evils, and as it will be likely to divert attention from the only true source of the recent distress, namely, the over-issue of paper, it is of importance shortly to refute that position. No over-trading nor over-speculation can produce injury or inconvenience to any one, but to those who over-trade, and who over-speculate. In "the recent distress," ruin came upon thousands, who did neither the one nor the other. Supposing a man to over-trade, that is, to buy up, or cause to be manufactured, commodities to the amount of 100,000*l.* more than he can obtain an equivalent for, he will lose to that amount ; but no more. The commodity which he has bought up will have become dearer, but some other must have become cheaper ; for the 100,000*l.*, which he invested in the commodity in which he was speculating, must have been withdrawn from some other commodity, which must have become cheaper in a corresponding

of solid and durable prosperity ; whereas, they were a proof of nothing but of an over-issue of worthless paper. I presume, therefore, that this report of his speech is incorrect. Messrs. Cobbett, Hardcastle, and Atwood foretold in print, as clearly as language could express, every thing that has taken place.

degree. It is said, that over-trading, and over-speculating, has been carried on to the extent of 17,000,000*l.*; that is, people have invested 17,000,000*l.* in the purchase, or manufacture, of more commodities than they had previously. But where did these 17,000,000*l.* come from? They did not coin it; neither did 17,000,000*l.* fall into their pockets, like aerolites, from the moon. They did not sell out of the public funds to that amount in order to invest the produce in the objects of their speculations; for if such had been the case, the public funds must have fallen, instead of continuing to rise, as they actually did, as fast as all other commodities; and unless some source can be pointed out, whence these 17,000,000*l.* were derived, it is absurd to say, that over-trading caused a rise in the price of any other commodities than those in which the over-trading was carried on.

The fact is, that over-trading was the necessary consequence of an inundation of depreciated paper. Currency became so plentiful, that the use of it, instead of being worth five per cent., was scarcely worth two per cent. Hence people were tempted to invest it in any way that seemed likely to yield them a larger profit: hence too the rise in *every* commodity, stocks, land, corn, &c., is easily accounted for: hence there might be over-

trading to any amount, without a corresponding fall in any one, nay, even with a rise in every one marketable commodity.

If not one shilling of the 17,000,000*l.** which

* I subjoin here a list of the Bubbles in which people have been investing, not their property, but their depreciated paper.

Foreign Loans, Mining, and other Schemes.

The following is a list of payments made on foreign loans, mining shares, and other undertakings, during the present year, and which amount to the sum of 17,582,773*l.*

Per cent.	£.	£.
35 on 1,000,000 Brazilian Loan of 1824	350,000	
75 ... 2,000,000 Do. do. 1825	1,500,000	
75 ... 3,500,000 Danish do.	2,625,000	
56½ ... 2,000,000 Greek do.	1,130,000	
25 ... 1,428,571 Guatimala do.	357,143	
60 ... 400,000 Guadalajara do.	240,000	
89½ ... 3,200,000 Mexican do.	2,872,000	
70 ... 2,500,000 Neapolitan do.	1,750,000	
78 ... 616,000 Peruvian do.	480,480	
		11,304,623

£ per share.

25 on 10,000 Anglo Mexican Mine shares ...	250,000
5 15,000 Anglo-Chilian	75,000
7 6,000 Arigna Iron and Coal	42,000
25 500 Bolanos	12,500
3 10,000 Bolivar	30,000
5 10,000 Castello	50,000
5 10,000 Chilian	50,000
2 2,500 Cobalt and Copper	5,000
5 10,000 Chili and Peru	50,000

have been foolishly subscribed in illusory schemes, had been so employed ; if they had remained in

15	10,000	Cornwall and Devonshire	150,000
2	2,500	Consolidated Copper.....	5,000
2½	10,000	English Mining	25,000
2	4,000	Equitable	8,000
12½	1,000	Famatina	12,500
5	20,000	General Mining.....	100,000
3	1,800	Gwennappe	5,400
5	10,000	Haytian	50,000
2	10,000	Hibernian	20,000
3	5,000	Hoomeavy	15,000
7½	10,000	London United	75,000
2	2,000	Manganese.....	4,000
5	10,000	Pasco Peruvian	50,000
5	20,000	Potosi.....	100,000
1	3,000	Polbreen Tin and Copper ...	3,000
3½	16,000	Royal Irish	56,000
330	500	Real del Monte	165,000
5	8,000	Royal Stannary	40,000
1	5,000	Waldeck.....	5,000
2	5,000	South Wales	10,000
3	10,000	Scottish National Mining	30,000
3	10,000	Tywarnhale	30,000
20	1,000	Tlalpuxahua	20,000
10	500	Tarma	5,000
10	6,000	United Mexican Mines.....	60,000
10	18,000	Ditto (New)	180,000
15	10,000	Welch Iron and Coal.....	150,000
10	10,000	Ditto Slate, Copper and Lead	100,000
2	250,000	Protector Fire Assurance	500,000
10	8,000	British Gas	80,000
5	10,000	International Gas	50,000

the pockets of the silly people who have expended them, the recent distresses would have

6	2,500 London Portable	15,000
20	5,000 New Imperial.....	100,000
3	10,000 Provincial Portable	30,000
15	2,000 Independent Gas	30,000
5	9,000 Phœnix Gas	45,000
8	20,000 United General	160,000
2	10,000 Birmingham & Liverp. Railway	20,000
3	4,000 Manchester and Liverpool ...	12,000
5	10,000 Anglo Mexican Mint.....	50,000
10	6,000 American and Col. Steam.....	60,000
2	10,000 Australian	20,000
10	10,000 Atlantic and Pacific	100,000
2	5,000 Egyptian Trading	10,000
25	20,000 British Iron	500,000
6	50,000 British Rock and Patent Salt	300,000
3	10,000 British and Foreign Paper ...	30,000
2	20,000 British, Irish, and Col. Silk...	40,000
1	10,000 Bristol Ship Canal	10,000
5	5,000 Steam and Packet Navigation	25,000
5	20,000 British and Foreign Timber ...	100,000
1	5,000 Brit. Chuan & Roman Cement	5,000
5	10,000 Canada	50,000
1	5,000 Canal Gas Engine.....	5,000
5	13,000 Colombian Agricultural.....	65,000
10	1,000 Canada and Nova Scotia	10,000
2	4,000 Devon Haytor Granite	8,000
10	5,000 Droitwich Patent Salt	50,000
2	1,000 Elbe and Weser Steam	2,000
2	5,000 East London Drug	10,000
2	2,000 French Brandy	4,000
2½	20,000 General Steam ..	50,000

been exactly as great, and probably greater: for these 17,000,000*l.* (if they were sent out of the

5	10,000 Gold Coast.....	50,000
6	8,000 Great Westminster Dairy.....	48,000
2	20,000 Guernsey and Jersey Steam...	40,000
3	3,500 Ground Rent.....	10,500
25	10,000 Hibernian Joint Stock	250,000
5	10,000 Honduras	50,000
1	20,000 Irish Manufactory.....	20,000
2	2,000 Imperial Plate Glass.....	4,000
10	12,000 Imperial Distillery.....	120,000
2	5,000 Imperial Estate	10,000
1	2,000 Investment Bank	2,000
3	10,000 London Brick	30,000
1	1,000 London and Gibraltar Steam...	1,000
2	1,000 Ditto Window Glass	2,000
1	1,000 Lower Rhine Steam	1,000
1	5,000 London Drug.....	5,000
1	4,000 London Smelting	4,000
2	1,000 London and Portsmouth Steam	2,000
2	2,000 Ditto and Gravesend.....	4,000
10	10,000 Mexican Company.. ..	100,000
4	6,000 Metropolitan Dairy	24,000
10	2,000 Medway Lime and Coke	20,000
2½	7,500 Netherland Patent Salt	18,750
2	5,000 New Brighton	10,000
3	5,000 New Corn Exchange.....	15,000
1	10,000 National Drug and Chymical...	10,000
5	6,000 Patent Bricks	30,000
5	4,000 Pacific Pearl Fishery.....	20,000
4	15,000 Pearl and Coral Fishery	60,000
10	20,000 Provincial Banks	200,000
15	6,000 Patent Distillery	90,000

country, which I doubt) were remitted in commodities, for which, some other commodities (not,

10	5,000	Rio de la Plata	50,000
2	3,500	Roman Brick and Tile	7,000
3	2,500	Scarlet Dye	7,500
1	4,000	Swedish Iron	4,000
3	3,000	Steam Engine Machinery.....	9,000
2	2,000	Tobacco and Snuff.....	4,000
3	4,000	Thames & Medw. Brick & Lime	12,000
2	1,500	Ditto and Rhine Steam...	3,000
1	1,000	Ditto and Loire ditto.....	1,000
5	20,000	West India Company..... ...	100,000
5	20,000	United Pacific	200,000
5	10,000	United Chilian	50,000
1	10,000	Do. Lond. & Hib. Corn & Flour	10,000
5	1,000	For. Stock & Share Investment	5,000
10	4,000	Thames Tunnel	40,000
25	1,600	Hammersmith Birdge	40,000
			<hr/>
			£17,582,773

In point of fact, I very much doubt, whether any considerable part of this sum was sent out of the country: the question is immaterial, but the following is an extract of a communication from a gentleman, upon whose accuracy the greatest reliance may be placed. "Very little of the £17,000,000*l.* was sent abroad. You can hardly imagine the extent of the robbery. I was consulted by —— on the subject of the Chili Loan before it was contracted for, and I learned what was intended to be done: —— came with a letter of introduction to me, and I was well acquainted with all that passed. Not one shilling was sent to Peru. Of the Chili Loan, 750,000*l.* for a million; all that Chili received was about 100,000*l.* Next to nothing has been sent of the country in any projects, except to Mexico, so that little more

indeed, of equivalent value) will be returned ; whereas, had they remained unemployed, nothing would have been returned. In exchange for these 17,000,000*l.* improvidently employed, the country will in that case be benefited to the amount of 1,000,000*l.*, and the speculators will lose sixteen parts out of seventeen.

The cause of the present distress is exactly the same as that which was the cause of all former similar distresses, namely, a return from a depreciated to a sound currency. During the last, in 1813, it was attributed to a “transition state, from war to peace.” Now it is attributed to “over-trading and a rash spirit of speculation ;” and men catch at any sounds that are uttered, without ever being at the trouble of analyzing the ideas which they are intended to convey.

A rise in the prices of all commodities can only take place owing to a fall in the value of the currency. This is a rule of universal application, and will serve as an infallible guide for judging of the signs of a real, or of a fallacious prosperity. Although an issue of Bank of England paper causing prices to rise, produces a corresponding issue of the paper of other banks, it does not follow that a contraction of Bank of England than a change of hands took place ; and this, however much it may inconvenience many, will not diminish our capabilities.”

paper will produce a corresponding contraction of the paper of country banks ; nor is the convertibility of the paper of country banks into gold practically of any use in preventing, by timely checks, their over-issuing ; for none of their neighbours know when to apply them, and very few dare do so, even if they knew. The balance of currency vibrates with so much delicacy, that its regulation is entirely in the hands of the bullion-merchants, and bill brokers, of London : a very slight variation in the equilibrium, when once discovered, affords a sufficient profit on the export of gold, in small daily quantities, to these persons resident in London, although such transactions are of too minute a nature to engage the attention of a general merchant. I say, when once discovered ; because it must be remembered, that for a long time after the paper part of the currency has become excessive, both the metallic part and the paper part are depreciated together, which prevents the depreciation of the paper from being immediately visible to the public eye. When once it is apparent, by the price of the carriage of gold being less than the price of a bill of exchange, then the depreciation begins to be corrected by the export, through the persons above-mentioned ; from which consideration it follows, that the consequence of an excessive issue of paper from any quarter, no matter from

what, would cause a drain upon the Bank of England exclusively for gold* ; when her coffers were nearly emptied, alarm would make the people fly for gold to the country bankers, who would be unable to supply them.

The probable end of the recent effects of the sudden contraction of the currency, if the Bank of England and the Government had not interfered, would have been the establishment of two prices of all commodities—a metal and a paper price ; and this, perhaps, after all, would be the best and safest end to the difficulties of this question. Besides the temporary interference (if it will be really only temporary), by the issuing of small notes, and by the advancing of more notes upon goods, a law has been passed, prohibiting the issuing of all small notes after three years. During three years, however, it gives power to the Bank of England, and country banks, to issue them or not, according to their fancies ; and it gives power to the people to receive them or not, according to their fancies ; so that the operation of this law depends upon two contingencies, neither of which can be accurately calculated

* Supposing we had an exclusively metallic currency, it would be possible for a great spirit of gambling adventure to give rise to so large a quantity of bill transactions, as to produce a kind of paper currency, sufficiently extensive to cause an export of the coin.

upon. If the effect shall be to keep out the small notes till the three years are nearly expired, then we shall have at that period the same distress, failures, &c. again, that we have lately had. If, on the other hand, we shall have the small notes all *bondā fide* withdrawn, we shall have stagnation of trade, manufacturers out of employ, no rents for the landlords, thousands of our fellow-creatures starved to death, and an increased pressure of taxation. Between these two extremes, any middle state may exist, dependent upon the way in which the bill is carried into effect. But let us suppose that we have got through the operation of the bill, and that we have settled into as steady a situation as we could desire; still the bill permits, under the most favourable view, so great a proportion of convertible paper, that it is impossible they can circulate together without producing violent and ruinous fluctuations*; for as soon as confidence shall return, out will come paper in some form or other; prices will rise; we shall be congratulated on our "prosperity;" away

* "No fact had been more clearly established by all experience on the subject than this—that gold and paper never could be brought to circulate together. No paper would circulate where gold did, and no gold where paper circulated. There could be no common issues of both. This, he repeated, was clearly proved by all experience."—*Lord Liverpool's Speech, Feb. 17, 1826.*

will go the gold ; and then another “ pecuniary crisis,” which will be much more destructive than the last, if banks shall have been formed previously with more numerous and opulent partners, all possessing the power of issuing paper, *ad libitum*.

Mr. Tooke assured us, that “ the country bankers, who are supported by the power of the landed aristocracy, would spare no efforts, and leave no sophistry untried, to prevent the suppression of the notes under 5*l.*” (p. 129.) This prophecy has been realized only with respect to Scotland ; the history of the conduct of the land-owners on this subject is curious.

When the land-owners supported the series of measures usually expressed under the term of Mr. Peel’s bill, they were ignorant, that by raising the value of the currency rents must fall, while mortgages, jointures, &c., would remain the same ; and accordingly they voted for the minister’s plan. Agricultural produce fell, and they then began to remember, that when they had small notes it did not fall, and they teased the ministers till they passed the small note bill, of which Mr. Peel complained this year, as a measure which frittered away his plan. The necessary consequence of this measure was an over-issue of paper, and consequent re-action, such as we have just seen. Parliament met in the midst of the panic :

all parties ran at the country banks (who were more sinned against than sinning, and the victims rather than the cause of the system under which they were acting), and again a bill has been passed avowedly for the purpose of suppressing notes ; the land-owners evidently again not perceiving what its effects will be on the price of corn.

The Scotchmen, however, have been much keener : to the “ efforts and sophistry,” anticipated by Mr. Tooke, they have added declamation and menace. They have smelt out clearly enough the connection between small notes and high rents ; and not an ounce of gold shall get into Scotland, nor a worthless stinking bit of dirty paper be suppressed, if they can keep it out. But if the small notes be not suppressed there as well as here, all the measures of the present session, from the king’s speech down to this hour, are perfectly nugatory, as far as the public is concerned, and can only have the effect of enriching Scotch landlords and paper-money makers, at the expense of the English.

The question is, what is to be done ? Every body, who has paid the smallest attention to the subject, however he may differ from others about the remedies to be applied, agrees, that the late distresses originated in an excessive issue of paper, and a consequent contraction of that

paper; and that, therefore, the problem to be demonstrated is, "how to render the value of the currency fixed*."

It is indispensably necessary to every plan that shall be adopted, that an immediate end should be put to the connection which has subsisted between the Government and the Bank. Whoever will be at the trouble of reading the appalling facts detailed in Messrs. Tooke's, Musshett's, Daniel Hardcastle's, and Attwood's Pamphlets, will be convinced, that that connection has been hitherto productive of nothing but mischief to the country. The state of the affairs of the Bank ought to be published in the Gazette, every quarter; the amount of its capital; the amount of its notes†; the amount and nature of its invest-

* "The object of every description of currency should be to make the value of property as steady and as little variable as possible. The truth lay there, and he who solved that problem, would certainly come to the wisest conclusion."

—*Lord Liverpool's Speech, Feb. 17, 1826.*

† Whilst these pages were in the press, a most important law has passed, which gives to issuers of paper-money, all over the kingdom, the power of compounding with the Stamp Office in such a manner as shall render it impossible for the public to know the extent of their issues. The amount of stamps was hitherto the sole criterion by which the quantity of country paper could ever be guessed, but by Mr. Sedgwick's tables, a tolerably correct appreciation could be made. It was to the amount of stamps alone that Lord Liverpool, Mr. Peel, and Mr. Huskisson appealed this year to

ments ; and the quantity of bullion in its chests. For, whether the directors know it or not, no one can read the above pamphlets, nor have paid any attention to the nature of currency, without being assured that that establishment possesses a formidable power over the properties of all its fellow-subjects ; which has been, and can be again productive of the most ruinous effects, without the possibility of conferring one redeeming benefit.

There are three modes of attaining this desired end :—

1. By having a wholly metallic currency. The ablest advocates for this are Mr. Cobbett and Daniel Hardeastle. To effect this object, however, such concomitant measures would be necessary as are

prove the quantity of country paper in circulation, and therefore it was the sole criterion by which they had to judge. Publicity is a *sine quā non* in any system which is to make currency steady ; yet even the little we had is now by Lord Liverpool taken away. So that every cause which facilitated over-issues of papers last year, is in as full operation as ever, with this additional help, and are we to believe that we shall not have another “ panic ?” Very well, Gentlemen, *vague la galère* ; but when we are told that we are in the most perfect calm, “ look out for a squall,” say I. There is one comfort at any rate, which is, that whoever will attend to the rule laid down in p. 58, and believe no one, be he minister, or merchant, or banker, who tells him that high prices are signs of permanent prosperity, may escape the ravages of the storm.

not likely to be adopted, and therefore it is idle here to discuss them.

2. By having a currency partly metallic, and partly paper. This can only be done by fixing the amount of paper, and allowing this paper to be issued solely by the Government, or by the State Bank; by which means the fluctuations will take place in the *quantity* of coin only, and the *value* of the whole currency will remain unimpaired.

3. By having an entire paper currency. The ablest advocates for this plan are Mr. Ricardo and Mr. Attwood; and the writings of the former are, or ought to be, so well known, that it is useless to relate the details here. This is the plan which I prefer, because it is the cheapest; and “cheap money, if it means any thing, means cheap taxes, cheap debts, and cheap burdens.”

One objection has been started against this plan which must not be passed over, and that is, an alleged facility to the crime of forgery.

The way to obviate this objection is, to repeal the punishment of death for that offence. As long as the Bank of England could hang as many forgers as it pleased, it took not the smallest trouble to improve the construction of its paper, nor vary the engravings on its notes. When the disgust of the public would no longer suffer the immolation of so many human victims, it set its

wits to work to find a pattern which should be absolutely inimitable; an idea as absurd as its former negligence was culpable. Let it only have the engravings of such patterns, that none but a few of the first engravers in London can make them (and it is possible to multiply the pattern upon a rose engine *ad infinitum*), and let the patterns be changed frequently, it can suffer little or no loss from forgery; certainly not more than is sustained by coining.

The public, however, must not be led to expect impossibilities from the Government, nor turn round and abuse the Executive for every consequence of its own improvidence. It is impossible (and I assert it without fear of refutation) for any legislative enactments whatever to prevent circumstances arising which shall cause vacillations in the value of the currency, fully as great as those from which the country is now suffering. Even if we had a wholly metallic currency to-morrow, causes in some degree similar might sooner or later occur. It is a necessary concomitant of old commercial countries, that the rate of interest, and consequently the rate of profits, should be progressively diminishing. One consequence of this is, that capital is sent out of the country to seek more lucrative employment: another consequence is, that a spirit is engendered in the people, if not of extravagance, at least of the opposite of saving, and a desire to

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Drummond, Henry
Elementary propositions
on the currency. 4th ed.

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